



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
KENTON COUNTY  
FORMER SHERIFF'S SETTLEMENT - 1998 TAXES**

**December 31, 1998**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
[WWW.STATE.KY.US/AGENCIES/APA](http://WWW.STATE.KY.US/AGENCIES/APA)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELE. (502) 564-5841  
FAX (502) 564-2912**



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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, County Judge/Executive

Honorable Charles L. Korzenborn, Kenton County Sheriff

Honorable Gary Lay, Former Kenton County Sheriff

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the former Kenton County Sheriff's Settlement - 1998 Taxes as of December 31, 1998. This tax settlement is the responsibility of the former Kenton County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Kenton County Sheriff's taxes charged, credited, and paid as of December 31, 1998, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, County Judge/Executive

Honorable Charles L. Korzenborn, Kenton County Sheriff

Honorable Gary Lay, Former Kenton County Sheriff

Members of the Kenton County Fiscal Court

Based on the results of our audit, we have presented comments and recommendations, included herein, which discusses the following areas of noncompliance.

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff Should Have Paid School Boards The Proper Share Of Interest Earned On Investment Of School Taxes
- The Former Sheriff Should Have Made Final Settlement With The Fiscal Court And Taxing Districts By March 15, 1999

In accordance with Government Auditing Standards, we have also issued a report dated September 3, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
September 3, 1999

KENTON COUNTY  
GARY LAY, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES

December 31, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 6,825,686	\$ 6,646,752	\$ 29,300,996	\$ 8,095,581
Tangible Personal Property	902,621	876,284	3,149,251	1,629,542
Intangible Personal Property				1,077,398
Franchise Corporation	326,195	287,699	1,185,576	
Increased Through Erroneous Assessments	30,578	23,727	96,037	84,310
Adjusted to Sheriff's Receipt	<u>(10)</u>	<u>106</u>	<u>21</u>	<u>40</u>
Gross Chargeable to Sheriff	<u>\$ 8,085,070</u>	<u>\$ 7,834,568</u>	<u>\$ 33,731,881</u>	<u>\$ 10,886,871</u>
<u>Credits</u>				
Discounts	\$ 128,851	\$ 125,252	\$ 535,480	\$ 183,626
Exonerations	13,084	12,709	61,593	39,863
Outstanding Tax Bills:				
Real Estate	370,104	368,711	1,732,866	438,960
Tangible Personal Property	26,222	21,794	115,931	56,338
Intangible Personal Property				<u>27,606</u>
Total Credits	<u>\$ 538,261</u>	<u>\$ 528,466</u>	<u>\$ 2,445,870</u>	<u>\$ 746,393</u>
Net Tax Yield	\$ 7,546,809	\$ 7,306,102	\$ 31,286,011	\$ 10,140,478
Less: Commissions *	<u>321,027</u>	<u>274,081</u>	<u>625,720</u>	<u>431,258</u>
Net Taxes Due	\$ 7,225,782	\$ 7,032,021	\$ 30,660,291	\$ 9,709,220
Taxes Paid	7,221,631	7,029,286	30,640,195	9,694,583
Refunds (Prior Year)	<u>3,132</u>	<u>2,768</u>	<u>15,427</u>	<u>17,178</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 1,019</u>	<u>\$ (33)</u>	<u>\$ 4,669</u>	<u>\$ (2,541)</u>

\* and \*\* See Page 4

KENTON COUNTY  
 GARY LAY, FORMER SHERIFF  
 SHERIFF'S SETTLEMENT - 1998 TAXES  
 December 31, 1998  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	23,862,540
2% on	\$	31,286,011
1% on	\$	1,120,849

\*\* Special Taxing Districts:

Library District	\$	(21)
Health District		(5)
Extension District		(4)
NKACP District		(3)
Boone-Walton Fire District		(37)
Elsmere Fire District		37

Due Districts or (Refunds Due Sheriff)	\$	<u>(33)</u>
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The accompanying notes are an integral part of the financial statement.



KENTON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorized the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with a depository institution insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

KENTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 1998  
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 1998, through December 31, 1998.

Note 4. Interest Income

The former Kenton County Sheriff earned \$62,631 as interest income on 1998 taxes. The former Sheriff did not distribute the appropriate amount to the school districts as required by statute. He owes \$3,520 to the Common School District; \$550 to Covington School District; \$60 to Ludlow School District; \$344 to Erlanger School District; and \$413 to Beechwood School District. He also owes \$6,906 to his fee account for the operation of his office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should have deposited any unrefundable duplicate payments and unexplained receipts to an interest-bearing account. According to KRS 393.110, the former Sheriff should have properly made a report annually to the Treasury Department for any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1998 taxes, the former Sheriff had \$636 in unrefundable duplicate payments and unexplained receipts. Therefore, the former Sheriff should have sent a written report to the Treasury Department. This interest-bearing account should then be turned over to the new Sheriff to maintain.

KENTON COUNTY  
GARY LAY, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

December 31, 1998

STATE LAWS AND REGULATIONS:

1) The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with a depository institution insured by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff had a bank balance of \$35,524,688; FDIC insurance of \$100,000; and securities pledged of \$50,000,000 as of November 5, 1998. Even though the former Sheriff obtained pledged securities of \$50,000,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response: OK.*

2) The Former Sheriff Should Have Paid School Boards The Proper Share Of Interest Earned On Investment Of School Taxes

Pursuant to KRS 134.140(b), at the time of his monthly distribution of taxes to district boards of education, the former Sheriff should pay to each board of education that part of his investment earnings for the month which is attributable to the investment of school taxes less his commission of 4% expenses. In our audit test of interest due school districts and amount due the fee account, we found that interest was only distributed for the month of November 1998. There is a total amount of interest earned through May 31, 1999, which was not distributed, in the amount of \$11,793. We would recommend that the former Sheriff immediately distribute this amount as follows:

Fee Account	\$	6,906
Common School		3,520
Covington School		550
Ludlow School		60
Erlanger School		344
Beechwood School		<u>413</u>
Total	\$	<u><u>11,793</u></u>

*Management's Response: OK.*

KENTON COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 December 31, 1998  
 (Continued)

3) The Former Sheriff Should Have Made Final Settlement With The Fiscal Court And Taxing Districts By March 15, 1999

Pursuant to KRS 134.215, an outgoing Sheriff shall make a final settlement with the Revenue Cabinet and the fiscal court and taxing districts of his county by March 15 immediately following the expiration of his term of office for all charges of taxes made against him and for all money received by him as Sheriff and to obtain his quietus, and immediately thereafter he shall deliver these records to the new Sheriff. Based on our audit of the former Sheriff's Settlement – 1998 Taxes, the following amounts were found to be due to the various taxing districts:

Amounts Owed:

County	\$	1,019
Common School		7,177
Ludlow School		427
Elsmere Fire		37
		<hr/>
Total	\$	<u><u>8,660</u></u>

The following amounts were found to be receivable:

State	\$	2,198
Covington School		841
Erlanger School		1,800
Beechwood School		294
Library		21
Health		5
Extension Service		4
NKAPC		3
Boone-Walton Fire		37
		<hr/>
Total	\$	<u><u>5,203</u></u>

We recommend that the former Sheriff collect the receivables and disburse the amounts owed. Funds are available for payment of all liabilities.

*Management's Response: OK.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Richard L. Murgatroyd, County Judge/Executive  
Honorable Charles L. Korzenborn, Kenton County Sheriff  
Honorable Gary Lay, Former Kenton County Sheriff  
Members of the Kenton County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Kenton County Sheriff's Settlement - 1998 Taxes as of December 31, 1998, and have issued our report thereon dated September 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Kenton County Sheriff's Settlement - 1998 Taxes as of December 31, 1998 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Kenton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Richard L. Murgatroyd, County Judge/Executive  
Honorable Charles L. Korzenborn, Kenton County Sheriff  
Honorable Gary Lay, Former Kenton County Sheriff  
Members of the Kenton County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 3, 1999



